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Leaders in the graphic arts since 1906

photo engravers & electrotypers ltd.

Directors and Officers

GORDON R. GILLIES, *President*

J. R. SHAW, *Vice-President*

JOHN S. DINNICK

H. B. KEENLEYSIDE, C.B.E.

DOUGLAS J. PEACHER

D. S. PORTER, C.A., *Secretary and Treasurer*

AUDITORS, *Clarkson, Gordon & Co.*

SOLICITORS, *Tory, Tory, DesLauriers & Binnington*

BANKER, *The Bank of Nova Scotia*

TRANSFER AGENT, *National Trust Company, Limited*

REGISTRAR, *Crown Trust Company*

HEAD OFFICE AND PLANT, *2250 Islington Avenue, Rexdale, Ontario*

photo engravers & electrotypes ltd.

Financial Highlights

EARNINGS	1971	1970
Sales - - - - -	\$8,461,994	\$8,228,668
Depreciation - - - - -	504,362	486,597
Income taxes - - - - -	411,500	363,000
Net earnings - - - - -	422,793	327,195
Net earnings per share - - - - -	2.35	1.87
Dividends paid - - - - -	174,819	161,000
Dividends per share - - - - -	.97	.92
<hr/>		
BALANCE SHEET		
Additions to capital assets - - - - -	\$ 201,296	\$1,521,969
Shareholders' equity - - - - -	4,060,007	3,699,008
Shareholders' equity—per share - - - - -	22.33	21.14

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photo engravers & electrotypers ltd.

Directors' Report to the Shareholders

Your directors are pleased to submit the annual report of the Company for 1971, together with the financial statements and accompanying auditors' report.

SALES AND EARNINGS In 1971, sales amounted to \$8,461,994 compared with \$8,228,668 in 1970. After meeting all charges, including a provision of \$504,362 for depreciation of plant and equipment, and a provision of \$411,500 for income taxes, there remained earnings of \$422,793 or \$2.35 per share compared with \$327,195 or \$1.87 per share for the previous year.

The 1970 earnings reflected abnormal start-up costs of \$84,000 resulting from initial production difficulties with the Company's new printing presses. The increased earnings in 1971 are the result of not having these start-up costs, together with income tax rate reductions and increased sales.

DIVIDENDS During the year quarterly dividends of 23 cents per share were paid on March 1, June 1 and September 1 and a dividend of 28 cents per share was paid on December 1. This resulted in a total distribution to shareholders of 97 cents per share or \$174,819 in 1971

compared with a total distribution of 92 cents per share or \$161,000 in 1970.

WORKING CAPITAL As a short term result of our recent expansion programme, current liabilities exceeded current assets by \$859,653 as at December 31, 1971. Further details are provided in the Statement of Source and Application of Funds and in the notes to the financial statements.

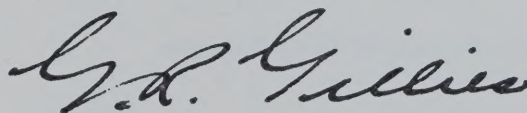
EARNINGS EMPLOYED IN THE BUSINESS As at December 31, 1971 earnings employed in the business amounted to \$3,165,478 compared to \$2,917,504 last year.

SHAREHOLDERS' EQUITY Total shareholders' equity amounted to \$4,060,007 equal to \$22.33 per share, compared with \$3,699,008 or \$21.14 per share a year ago.

OUTLOOK We expect that net earnings for 1972 will show an increase over 1971 as we continue to fill the capacity of our expanded facilities in commercial artwork and photography and rotogravure printing.

We extend sincere appreciation to all those employees who, through their loyalty and efficiency throughout the year, contributed so much to the high standards of quality and service to our customers.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "G.D. Gillies". The signature is fluid and cursive, with a long horizontal line extending from the end of the name.

President.

Toronto, Canada

January 25, 1972.

photo engravers

(Incorporated under the laws of the State of California)

BALANCE SHEET

December 31, 1971

(with comparative figures for 1970)

ASSETS

	1971	1970
CURRENT:		
Cash - - - - -	\$ 147,184	\$ 125,828
Accounts receivable - - - - -	199,679	250,438
Portion of notes due within one year under Employees' Stock Purchase Plans (note 2) - - - - -	23,399	12,096
Inventories of materials and work-in-process at cost, less progress payments received - - - - -	663,477	593,463
Prepaid expenses - - - - -	4,369	6,186
TOTAL CURRENT ASSETS - - - - -	1,038,108	988,011
FIXED—at cost:		
Land and roadways - - - - -	116,928	135,910
Buildings - - - - -	3,619,541	3,554,502
Machinery and equipment - - - - -	8,525,313	8,378,560
	12,261,782	12,068,972
Less accumulated depreciation - - - - -	5,129,829	4,633,952
	7,131,953	7,435,020
OTHER:		
Notes due under Employees' Stock Purchase Plans (note 2) - - - - -	150,107	60,480
	\$8,320,168	\$8,483,511

On behalf of the Board:

G. R. GILLIES, *Director*

J. R. SHAW, *Director*

(See accompanying notes)

electrotypers Ltd.

e laws of Canada)

SHEET

1, 1971

at December 31, 1970)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1971	1970
CURRENT:		
Bank loan - - - - -	\$ 385,000	\$ 540,000
Accounts payable and accrued charges - - - - -	614,241	718,332
Income and other taxes payable - - - - -	398,520	221,171
Portion of term bank loan due within one year (note 1) - - - - -	500,000	500,000
TOTAL CURRENT LIABILITIES - - - - -	1,897,761	1,979,503
TERM BANK LOAN (note 1) - - - - -	920,000	1,410,000
DEFERRED INCOME TAXES - - - - -	1,442,400	1,395,000
	4,260,161	4,784,503
SHAREHOLDERS' EQUITY:		
Capital stock—		
Authorized:		
250,000 shares, no par value		
Issued (note 2):		
181,850 shares (1970—175,000 shares) - - - - -	894,529	781,504
Earnings employed in the business - - - - -	3,165,478	2,917,504
	4,060,007	3,699,008
	\$8,320,168	\$8,483,511

o financial statements)

photo engravers & electrotypers Ltd.

Statement of Earnings and Earnings Employed in the Business

Year ended December 31, 1971

(with comparative figures for the year 1970)

	1971	1970
SALES - - - - -	\$8,461,994	\$8,228,668
COST OF SALES and all expenses, except the items noted below - - - -	6,957,240	6,794,439
Provision for depreciation - - - - -	504,362	486,597
Interest expense on term bank loan - - - - -	139,174	138,310
Interest expense on current bank loan - - - - -	26,925	35,106
Abnormal start-up costs and expenses related to production difficulties with new press - - - - -		84,021
	7,627,701	7,538,473
EARNINGS BEFORE PROVISION FOR INCOME TAXES - - - -	834,293	690,195
Provision for income taxes - - - - -	411,500	363,000
EARNINGS FOR THE YEAR* - - - - -	422,793	327,195
EARNINGS EMPLOYED IN BUSINESS, BEGINNING OF YEAR - -	2,917,504	2,751,309
	3,340,297	3,078,504
Less dividends paid - - - - -	174,819	161,000
EARNINGS EMPLOYED IN BUSINESS, END OF YEAR - - - -	\$3,165,478	\$2,917,504
*EARNINGS PER SHARE - - - - -	\$2.35	\$1.87

(See accompanying notes to financial statements)

photo engravers & electrotypers Ltd.

Statement of Source and Application of Funds

Year ended December 31, 1971

(with comparative figures for the year 1970)

	1971	1970
SOURCE OF FUNDS:		
Earnings for the year - - - - -	\$ 422,793	\$ 327,195
Charges not involving a current outlay of funds—		
Provision for depreciation - - - - -	504,362	486,597
Deferred income taxes - - - - -	47,400	125,000
FUNDS FROM OPERATIONS - - - - -	974,555	938,792
Shares issued under Employees' Stock Purchase		
Plans (note 2) - - - - - \$113,025		
Less notes received in consideration therefor (note 2) - 113,025	NIL	
Increase in term bank loan - - - - -		266,000
Repayments of notes due under Employees' Stock		
Purchase Plans - - - - -	23,399	25,866
	<u>997,954</u>	<u>1,230,658</u>
APPLICATION OF FUNDS:		
Additions to fixed assets - - - - -	201,296	1,521,969
Decrease in term bank loan - - - - -	490,000	
Dividends - - - - -	174,819	161,000
	<u>866,115</u>	<u>1,682,969</u>
INCREASE (DECREASE) IN WORKING CAPITAL - - - - -	131,839	(452,311)
WORKING CAPITAL (DEFICIENCY) BEGINNING OF YEAR -	(991,492)	(539,181)
WORKING CAPITAL (DEFICIENCY) END OF YEAR - - - -	\$ (859,653)	\$ (991,492)

(See accompanying notes to financial statements)

photo engravers & electrotypers Ltd.

Notes to Financial Statements

December 31, 1971

1. TERM BANK LOAN

Funds not available from operations in recent years to meet major capital expenditures have been provided by means of a term bank loan bearing interest at 8% per annum and repayable over a five year period which commenced in 1970. There is a maximum amount available under the loan of \$3,000,000 of which \$2,420,000 has been taken up by the Company to December 31, 1971. The Company has undertaken not to pledge or otherwise encumber any of its assets while any portion of this loan is outstanding.

2. EMPLOYEES' STOCK PURCHASE PLANS

In 1971 officers and senior management of the Company, two of whom are full time salaried directors, subscribed for and purchased an aggregate of 6,850 shares of the Company under an Employees' Stock Purchase Plan. The shares were issued at \$16.50 per share, the current market price on the day prior to the subscription date, for a total consideration of \$113,025. This consideration was received in the form of promissory notes which, as with notes outstanding under a similar plan established in 1967, are non-interest bearing and are secured by a pledge of shares of the Company. The notes are due in equal annual instalments over ten years.

3. PENSION PLANS

All the Company's employees are covered by the Canada Pension Plan and the majority by various union or Company administered retirement plans. The amount charged to income (including amounts paid to the government pension plan) was \$107,600 in 1971 and \$106,400 in 1970, which amounts included amortization of prior service costs. The unfunded prior service pension costs at December 31, 1971 were estimated to be \$126,000 (approximately equal to the value of the vested benefits at that date) and these will be charged to operations on a straight-line basis over the next nine years.

4. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration in 1971 of the Company's five directors as directors was \$3,000 (\$3,000 in 1970). The aggregate remuneration in 1971 of the Company's three officers as officers was \$118,400 (\$109,500 in 1970). Two directors were also officers of the Company during 1971.

Auditors' Report

To the Shareholders of
PHOTO ENGRAVERS & ELECTROTYPERS LIMITED:

We have examined the balance sheet of Photo Engravers & Electrotypers Limited as at December 31, 1971 and the statements of earnings and earnings employed in the business and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 13, 1972.

CLARKSON, GORDON & Co.
Chartered Accountants

photo engravers & electrotypers ltd.

Ten Years' Review

Earnings

Year	Sales	Provision for Depreciation	Earnings Before Income Taxes	Net Earnings	Net Earnings Per Share	Dividends Per Share
1962	\$5,630,736	\$251,739	\$417,956	\$208,956	\$1.28	\$.80
1963	5,895,215	256,456	486,993	240,493	1.46	.80
1964	6,147,623	253,368	457,148	227,148	1.38	.80
1965	4,796,848	242,090	433,793	220,093	1.34	.80
1966	5,323,927	305,789	501,770	254,270	1.55	.80
1967	5,960,022	327,032	564,640	282,140	1.61	.80
1968	6,495,118	360,111	608,186	293,486	1.68	.80
1969	7,347,776	501,444	691,336	323,736	1.85	.86
1970	8,228,668	486,597	690,195	327,195	1.87	.92
1971	8,461,994	504,362	834,293	422,793	2.35	.97

Balance Sheet

Year	Working Capital (Deficiency)	Plant and Equipment at Cost	Plant and Equipment After Depreciation	Funded Long Term Debt	Term Bank Loan	Shareholders' Equity	Shareholders' Equity Per Share
1962	\$1,357,477	\$ 5,560,655	\$2,837,513	\$1,500,000		\$2,264,759	\$13.82
1963	1,336,540	5,689,024	2,719,722	1,250,000		2,382,778	14.50
1964	922,983	5,329,854	2,735,802	1,000,000		2,496,185	15.19
1965	643,667	5,999,022	3,170,037	750,000		2,625,304	15.97
1966	764,131	6,535,191	3,403,065	500,000		2,920,041	17.77
1967	244,788	7,641,891	4,255,915	250,000	\$ 255,000	3,206,091	18.32
1968	(611,244)	9,477,706	5,738,084		712,000	3,359,577	19.20
1969	(539,181)	10,633,676	6,399,648		1,144,000	3,532,813	20.19
1970	(991,492)	12,068,972	7,435,020		1,410,000	3,699,008	21.14
1971	(859,653)	12,261,782	7,131,953		920,000	4,060,007	22.33

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Artists

Photographers

Rotogravure Engravers

Rotogravure Printers

Bookbinders